

SENATE BILL REPORT

SB 5002

As Amended by House, March 3, 2022

Title: An act relating to the state auditor's duties and procedures.

Brief Description: Addressing the state auditor's duties and procedures.

Sponsors: Senators Hunt, Carlyle, Conway, Dhingra, Hasegawa, Hawkins, Mullet, Rivers and Wilson, C.; by request of State Auditor.

Brief History:

Committee Activity: State Government & Elections: 1/13/21, 1/15/21 [DP].

Floor Activity: Passed Senate: 1/19/22, 49-0.

Passed House: 3/3/22, 96-1.

Brief Summary of Bill

- Requires the state auditor to establish policies for agency reporting of loss of funds, assets, or other illegal activity.
- Makes updates or removes certain audit functions and reports required by the auditor.

SENATE COMMITTEE ON STATE GOVERNMENT & ELECTIONS

Majority Report: Do pass.

Signed by Senators Hunt, Chair; Kuderer, Vice Chair; Wilson, J., Ranking Member; Hasegawa and Hawkins.

Staff: Melissa Van Gorkom (786-7491)

Background: State Auditor. The state auditor (auditor) is authorized to audit public accounts, investigate improper governmental activity, request prosecutions of wrongdoing, and report on its findings. The auditor may also conduct independent, comprehensive

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

performance audits of public agencies.

Loss of Public Funds. State agencies and local governments must immediately report any known or suspected loss of public funds or assets, or other illegal activity to the State Auditor's Office.

Financial Audits. State Agency Audits. When examining routine audits of state agencies financial affairs, the auditor reviews all revolving funds, local funds, and other state funds and state accounts not managed by or in the care of the state treasurer and that are under the control of the state agencies. When conducting audits, the auditor examines revenues and expenditures, assets and liabilities, accounting methods and procedures, and recordkeeping practices. The auditor must report to the Legislature within five months of each biennium's end on the status of all financial affairs audits during the proceeding biennium, as well as any recommendations for their improved financial management.

Local Government Audits. Local governments must submit financial reports to the State Auditor's Office for each fiscal year. The reports must contain:

- collections made or receipts received by officers from all sources;
- accounts due to the public treasury but not collected;
- expenditures for every purpose and which authority authorized the expenditure;
- a statement of all costs of ownership and operation, and of all income, of each and every public service industry owned and operated by a local government;
- a statement of the entire public debt of every local government including other relevant information;
- a classified statement of all receipts and expenditures by any public institution; and
- a statement of all expenditures for labor relations consultants, with the identification of each consultant, compensation, and the terms and conditions of each agreement or arrangement.

An examination of the financial affairs of all local governments is done periodically as determined by the auditor, but must be completed at least once in every three years and must include review of all local governments tax levies.

Performance Audits. Transportation Performance Audit Board . The Transportation Performance Audit Board was established in 2003 to provide oversight and accountability of transportation-related agencies. This is accomplished with performance audits, and review of performance measures and outcomes. In 2005, statewide transportation governance was restructured when voters approved Initiative 900 (I-900) which required the auditor to conduct performance audits on state agencies and local governments, including state and local transportation governmental entities.

Citizen Advisory Board Performance Audit Program. The Citizens Advisory Board (board) was created in 2005 to establish criteria for performance audits, as part of a performance

audit program (program). The auditor and the board must develop a draft work plan for performance audits under the program. The auditor must contract out for performance audits. Every four years, the Joint Legislative Audit Review Committee must contract with a private entity for a performance audit of the program. The audits conducted under the board's authority are separate from the comprehensive performance audits of state and local governments, and each of their agencies, accounts, and programs, required under I-900.

Local Government Program Audit. The auditor has the discretion to conduct a performance audit of programs under the jurisdiction of a local government upon request of that jurisdiction's legislative authority. The audit performed is funded by local funds.

Performance Audits of Long-Term In-Home Care. The auditor is required under Initiative 1163, approved by the voters in November 2011, to conduct performance audits of the long-term in-home care program on a biennial basis. As part of the auditing process, the state must hire five additional fraud investigators to ensure clients receiving services at taxpayers' expense are medically and financially qualified to receive the service and are actually receiving the service.

Summary of Bill: Loss of Public Funds. The auditor must establish policies for agency reporting of loss of funds, assets, or other illegal activity.

Fiscal Audits. The requirement for the auditor to report to the Legislature within five months of the end of each biennium on the status of all state financial affairs audits during the proceeding biennium and any recommendations for their improved financial management is removed.

The requirement for the auditor to receive statements of labor relations consultant information in the local government fiscal reports is removed and the auditor is no longer required to review the tax levies of all local government as part of the periodic examination of the fiscal affairs of local government.

Performance Audits. The performance audit authority under the statute are modified. References to repealed language concerning the Transportation Performance Audit Board responsibility to conduct performance audits for transportation related agencies are removed from the statute. The performance audit program under the authority of the board, and related provisions, are repealed. The auditor retains authority to direct performance audits under I-900.

The statute granting the auditor discretion to conduct a performance audit of programs under the jurisdiction of a local government upon request of that jurisdiction's legislative authority is repealed.

The auditor must conduct audits of the long-term in-home care program after consultation with affected disability and aging stakeholder groups, and may use authority to inspect the

books and complete audits of public accounts to satisfy the biennial audit requirement if a performance audit was completed in the preceding biennium.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: This is a simple bill to strengthen the statute to ensure prompt reporting standards. It will save money for state and local governments by eliminating redundant and unnecessary reporting requirements such as removing the requirement for paper reports that are readily available online. It also eliminates old statutory language regarding performance auditing replaced by the I-900 language. These changes have been carefully vetted with all stakeholders.

Persons Testifying: PRO: Senator Sam Hunt, Prime Sponsor; Pat McCarthy, State Auditor's Office; Scott Nelson, State Auditor's Office.

Persons Signed In To Testify But Not Testifying: No one.

EFFECT OF HOUSE AMENDMENT(S):

- Makes a technical correction to incorporate changes made to the statute in 2021.
- Restores the definition of preliminary performance audit reports.
- Restores the requirement for the auditor to solicit comments from certain agencies, including audited agencies, on preliminary performance audit reports.
- Restores the requirement that audited agencies follow up and take corrective action on performance audit findings and recommendations.